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FOR IMMEDIATE RELEASE

NEW FEDERAL LAW REQUIRES STATES TO CRACK DOWN ON EMPLOYERS DODGING UNEMPLOYMENT TAXES

Michigan to seek anti-SUTA dumping legislation this fall

SEPTEMBER 7, 2004 – A new federal law will require states to enact rules that would close loopholes that now allow devious employers to dodge some of their unemployment insurance taxes.

Through a practice called SUTA (state unemployment tax act) dumping, some employers have been able to lower their unemployment taxes by shifting their payrolls to a new corporation or by buying a different firm and using that company's lower tax rate. In either case, employers are using unethical if not illegal schemes to pay less in taxes.

"The federal legislation is intended to make the unemployment insurance (UI) tax system fair for all employers nationwide by mandating states pass legislation to close loopholes that may exist in their UI tax laws," said David Plawecki, a deputy director with Michigan's Department of Labor & Economic Growth.

Plawecki said he expects Michigan's Legislature to consider changes to the state's UI law this fall.

"Many forms of SUTA dumping are already illegal under Michigan law. These statute changes will close any loopholes so we can equally enforce laws to prevent SUTA dumping," he explained. "Now, there are some gray areas, and some employers have adopted different schemes to avoid paying their fair share of unemployment taxes. With new legislation everyone would have clear rules to follow."

The state's Unemployment Insurance Agency (UIA) believes only a small number of Michigan employers practice SUTA dumping. However, the agency estimates that it is losing between \$62 and \$95 million annually in state unemployment taxes because of the practice.

"All employers are impacted because the 'escaped responsibility for benefits paid' ends up on the backs of all other Michigan employers. The loss of these tax dollars has already affected employers in the state," Plawecki pointed out. "We were unable to grant employers a 10 percent credit on their state unemployment taxes because

(over)

Michigan's UI trust fund was short of the threshold level needed to trigger the tax credit by \$70 to \$80 million. If we had had SUTA dumping legislation in place two years ago, we would have been able to implement the tax credit this year."

UIA is already establishing a SUTA dumping team in its Tax Office. The team is starting to identify employers who are engaging in the practice and is trying to determine its impact and how to approach the problem.

"If SUTA dumping is not addressed soon, it could become more commonplace," Plawecki said. "Every employer should have a level playing field, where all employers are paying their fair share of unemployment taxes and replenishing the trust fund so money is there to pay unemployment benefits to their qualified and eligible unemployed workers."

The federal legislation received strong and rapid bi-partisan support in both the House and Senate and was signed into law by President Bush on August 9. Michigan was actively involved in supporting passage of the federal mandate to all states.

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